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Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 DODE-00 PA-03 USIA-12 PRS-01 ABF-01

FSE-00 ARA-16 EURE-00 RSR-01 /184 W
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P R 101136Z JUL 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 2475
INFO AMEMBASSY BONN
USMISSION EC BRUSSELS
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 LONDON 07874

DEPARTMENT PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: PARLIAMENTARY DEBATE ON CURRENT INTERNATIONAL MONETARY DIFFICULTIES.

BEGIN SUMMARY: DURING PARLIAMENTARY DEBATE JULY 9, CHANCELLOR BARBER SAID THAT THE POUND IS UNDERVALUED AND THAT CURRENT STERLING RATE UNJUSTIFIED BY OBJECTIVE CRITERIA. END SUMMARY.

1. CHANCELLOR BARBER MADE BLAND INTRODUCTORY STATEMENT TO EFFECT THAT THE BASLE MEETING HAD RECALLED THE COMMUNIQUE OF THE GROUP OF TEN ISSUED IN PARIS ON MARCH 16, WHEN PARTICIPANTS AGREED IN PRINCIPLE THAT
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OFFICIAL INTERVENTION IN EXCHANGE MARKETS MIGHT BE USE-

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FUL TO FACILITATE MAINTENANCE OF ORDERLY CONDITIONS. AT BASLE, CENTRAL BANKS CONCLUDED THIS APPROACH REMAINED APPROPRIATE AND ALL THE NECESSARY TECHNICAL AGREEMENTS ARE IN PLACE TO IMPLEMENT IT. CURRENT MOVEMENT OF RATES ON FOREIGN EXCHANGE MARKETS, WHETHER STERLING OR OTHER MAJOR CURRENCIES, DO NOT CORRESPOND WITH THE MOVEMENTS OF RELATIVE COSTS AND PRICES IN THE COUNTRIES CONCERNED.

2. DENIS HEALEY, SHADOW CHANCELLOR, ASKED BARBER (A) IF THE CENTRAL BANKS ARE PREPARED TO INTERVENE; (B) WHETHER THE CHANCELLOR WOULD UNDERTAKE URGENT TALKS WITH OTHER GOVERNMENTS TO CONTROL SHORT-TERM CAPITAL MOVEMENTS, THE MAIN CURRENT PROBLEM; (C) FOR A FIRM UNDERTAKING THAT THE POUND WILL CONTINUE TO FLOAT AT LEAST UNTIL INFLA-TION IN BRITAIN IS AS WELL UNDER CONTROL AS IN COMPETITOR COUNTRIES.

3. IN REPLY BARBER SAID (A) IT IS NOT THE POLICY AND NEVER HAS BEEN THE POLICY OF THE GOVERNMENT TO DISCLOSE MATTERS CONCERNING INTERVENTION IN THE MARKETS; (B) HE FELT HEALEY WAS RIGHT TO STRESS THE GREAT IMPORTANCE OF SHORT-TERM CAPITAL MOVEMENTS; HOPEFULLY, PROGRESS ON THIS POINT COULD BE MADE AT C-20 MEETINGS IN CONNECTION WITH REFORM OF INTERNATIONAL MONETARY SYSTEM; (C) IN THE PAST HE HAD EXPLAINED THE CIRCUMSTANCES IN WHICH BRITAIN WOULD JOIN THE COMMON FLOAT. HAROLD WILSON ASKED FOR AN ASSURANCE THAT THERE WOULD BE NO REPEGGING OF THE POUND IN 1973. BARBER REPLIED THAT U.K. POSITION REGARDING THE REJOINING OF THE SNAKE IS THAT U.K. SHALL JOIN THE EEC MARGIN SCHEME AT AN APPROPRIATE TIME.

4. BARBER WAS ASKED IF HE HAD ENTERED INTO A PRIVATE AGREEMENT WITH THE FRENCH GOVERNMENT TO BRING THE POUND BACK TO A MUCH LOWER LEVEL AND INTO THE BONDAGE OF THE EC ARRANGEMENTS. THE CHANCELLOR REPLIED THAT THERE IS NO TRUTH WHATSOEVER IN THIS STATEMENT.
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TO SECSTATE WASHDC PRIORITY 2476
INFO AMEMBASSY BONN
USMISSION EC BRUSSELS
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USMISSION OECD PARIS
AMEMBASSY ROME
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5. IN REPLY TO QUESTIONS BARBER SAID THE ROLE OF GOLD IN CONNECTION WITH STABILIZING INTERNATIONAL CURRENCIES IS BEING DISCUSSED IN CONNECTION WITH THE LONG-TERM REFORM OF THE MONETARY SYSTEM.

6. FURTHER, HE WENT ON TO SAY THAT ON ANY OBJECTIVE CRITERIA, STERLING IS AT PRESENT UNDERVALUED. "THE OBJECTIVE CRITERIA OVER THE MEDIUM-TERM WHICH ARE TAKEN INTO ACCOUNT AND BECOME EFFECTIVE ARE COSTS AND PRICES IN THE MAIN. AT THIS STAGE IT WOULD BE WRONG TO ASSUME THAT THE PRESENT RATE OF STERLING AND THEREFORE THE CHANGE FROM ANY GIVEN PREVIOUS POINT OF TIME REPRESENTS A RATE WHICH IS JUSTIFIED BY THESE OBJECTIVE CRITERIA."

7. BARBER SAID THAT THE U.K. IS IN CONSTANT TOUCH
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WITH COLLEAGUES IN THE EC. U.S. AUTHORITIES ARE FULLY AWARE OF THE DIFFICULTIES WHICH ARE CAUSED BY THE PRESENT INSTABILITY. THE PAST FEW WEEKS HAVE ESTABLISHED BEYOND DOUBT THE URGENCY OF WORKING OUT A REFORMED INTERNATIONAL MONETARY SYSTEM; NO COUNTRY HAS PRESSED HARDER FOR THIS REFORM THAN THE U.K.

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